1. Background information and technological nature of the securities

For more than a year, AS LHV Pank (hereinafter LHV or issuer) has been looking into the options of using open-architecture, cryptographic, distributed databases (hereinafter blockchain) for creating and providing financial services.

LHV believes that blockchain-based products deserve to be tested with the aim of complementing (rather than replacing) the present-day centralised databases. Blockchain’s advantages, compared to a present-day centralised database include:

- resistance to cyber attacks – no central core to attack;
- resistance to data leakages – data only exist in heavily encrypted form;
- use of open and public standards – partners speak a common language;
- building blocks for new, innovative financial products, i.e. more easily programmable and transparent architecture – multi-signature escrow accounts, M2M settlements, financial transactions that can be publicly audited, etc.

In cooperation with one of the leading blockchain technology companies Chromaway AB, which is mainly involved in the so-called Colored Coins technology, LHV has developed a new, innovative solution. Colored Coins is the Bitcoin’s blockchain-based distributed database, designed for the management of assets or other (financial or non-financial) data (www.coloredcoins.org).

In order to develop, manage and distribute the required software, AS LHV Group has established the technology company OÜ CUBER TECHNOLOGY. To own a cuber, the OÜ CUBER TECHNOLOGY’s mobile app needs to be downloaded and installed.

For communication with the distributed databases, client applications have been created for mobile Android and iOS operating systems. The provisional client applications have been designed for effecting small payments, above all via the graphic medium (QR code).

This document might not contain the entire information considered important by the interested parties. Since the blockchain technology is relatively new, and, as far as we know, this is the first time it is ever used in the financial sector, LHV will start testing the new securities carefully, on a limited scale and by using a design that serves to minimise security risks. The target group of the test is limited.

2. Legal framework

LHV has subjected cubers to the Securities Market Act of the Republic of Estonia (hereinafter SMA), treating cubers as securities. Pursuant to subsection 2 (2) of the SMA, "For the purposes of this Act, a money market instrument is a low credit, unsecured, transferable and marketable debt obligation issued by an issuer for a term of up to one year which is traded on the money market, including a treasury bond, commercial paper, certificate of deposit and bill of exchange secured by a credit institution complying with the aforementioned characteristics".
Cubers can be treated as money market instruments – certificates of deposit in the meaning of subsection 2 (2) of the SMA.

As the issuer of the certificate of deposit, LHV may apply to the cuber simplified conditions of issue under clause 14 2) of the SMA. We should point out that, pursuant to clause 2 (1) 2) of the Estonian Central Register of Securities Act, LHV as the issuer of cubers is not obliged to register the securities in the Estonian Central Register of Securities. Neither is there any technological need for such registration, considering the nature of blockchain.

The precondition for the issue and redemption of cubers is a customer relationship with LHV. In the establishment of the relationship, LHV thus adheres, among other things, to the obligations arising from the Money Laundering and Terrorist Financing Prevention Act.

3. Basic conditions for the issue of cubers

3.1 General provisions
3.1.1 LHV shall issue cubers (Cryptographic Universal Blockchain Entered Receivables) into a distributed database on the basis of the following conditions of issue.
3.1.2 LHV itself does not offer centralised claims preservation services to customers. LHV merely serves as the issuer of securities, i.e. issues claims with the aim of raising financial resources for LHV.
3.1.3 In order to acquire and redeem certificates of deposit from LHV, a customer relationship needs to be established with LHV.

3.2 Basic conditions for the certificates of deposit
3.2.1 LHV shall issue 100,000 certificates of deposit.
3.2.2 The nominal value of a certificate of deposit shall be 1 euro.
3.2.3 The certificate of deposit shall be unsecured.
3.2.4 The certificate of deposit shall have a maximum maturity of 6 months, with the issue commencement date set to 11 May 2015 and the last redemption date to 11 November 2015.
3.2.5 No interest shall be paid to the owner of the certificate of deposit.
3.2.6 LHV shall not register the certificates of deposit in the Estonian Central Register of Securities, and shall not issue any hard copies of certificates of deposit.
3.2.7 The certificates of deposit shall be freely transferable and encumberable, subject to the limitations arising from the legal acts of Estonia and other countries. The issue of the certificates of deposit shall not be registered under the legal acts of Estonia or any other country. The certificates of deposit may not thus be sold or offered for sale in any country, where a previous registration or other formalities are required for the purpose.
3.2.8 Any payments to be made by LHV and the holder of the certificate of deposit in connection with the certificates of deposit shall be made in euros.

3.3 Acquisition of certificates of deposit from the issuer
3.3.1 Only a customer of LHV may become the holder of a certificate of deposit.
3.3.2 A customer of LHV may acquire a minimum of 10 and a maximum of 1,000 certificates of deposit from LHV.
3.3.3 To acquire a certificate of deposit, a bank transfer shall be made to LHV's current account No EE107700771001387860.
3.3.4 Certificates of deposit may be acquired during the entire period of issue.
3.3.5 LHV shall not guarantee the issue of the certificates of deposit. LHV may partially or completely cancel the issue at its own discretion.

3.3.6 LHV shall have the right to decide on the cancellation of the issue or reduction of the volume of the issue.

3.4 Redemption of the certificates of deposit

3.4.1 The last redemption date of the certificates of deposit is 11 November 2015. LHV shall have the right to redeem certificates of deposit at an earlier date.

3.4.2 Certificates of deposit may only be redeemed/sold back by customers of LHV.

3.4.3 The redemption payment per certificate of deposit shall be the nominal value of the certificate of deposit.

3.4.4 LHV shall make the redemption payment to the person who has sought redemption of the certificate of deposit in LHV during the term of redemption. The holder of the certificate of deposit shall have the right to seek redemption of the certificate of deposit in LHV for a period of 6 months after the last redemption date (i.e. until 11 May 2016).

3.5 Final provisions

3.5.1 LHV shall be liable for breach of an obligation arising from the conditions of issue only if the breach is deliberate or attributable to gross negligence.

3.5.2 The certificates of deposit and any rights and obligations thereof shall be governed by the laws of the Republic of Estonia.

3.5.3 Any disputes arising from and related to the certificates of deposit shall be settled in Harju County Court.